

RECOMMENDED BUDGET PRACTICES

**A Framework
for Improved
State and Local
Government Budgeting**

**NATIONAL ADVISORY COUNCIL
ON STATE AND LOCAL BUDGETING**

GOVERNMENT FINANCE OFFICERS ASSOCIATION

EXHIBIT

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Recommended Budget Practices:

**A Framework For Improved State
and Local Government Budgeting**

National Advisory Council on State and Local Budgeting

Government Finance Officers Association

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Foreword

Of all of the functional areas of finance, the one most in need of guidance is government budgeting. The release by the National Advisory Council on State and Local Budgeting of this set of recommended practices represents a milestone in budgeting—in one document governments now have a comprehensive set of processes and procedures that define an accepted budget process. The practices advocate a goal-driven approach to budgeting that spans the planning, development, adoption, and execution phases of the budget.

The practices put forward by the the Council take a major step forward in promoting the linkage of the budget process with other activities of the government. Their scope is intentionally broad, recognizing that budgeting has many dimensions—political, managerial, planning, communications, as well as financial. Practices encourage the development of organizational goals, establishment of policies and plans to achieve these goals, and allocation of resources through the budget process that are consistent with goals, policies, and plans. There is also a focus on measuring performance to determine what has been accomplished with scarce government resources.

The Council's work is important in emphasizing that budgeting should have a long-range perspective, and not be simply an exercise in balancing revenues and expenditures one year at a time. This focus on long-term financial planning comes at a critical time. Recommended budget practices encourage governments to consider the longer-term consequences of such actions to ensure that the impacts of budget decisions are understood over a multi-year planning horizon and to assess whether program and service levels can be sustained.

What is significant about the practices is that they represent an unprecedented cooperative effort by several organizations with diverse interests to examine and agree on key aspects of good budgeting. The Council was founded by eight organizations representing elected officials, government administrators, and finance professionals at both the state and local government level. Council membership also includes representatives of the public finance industry, public employees' unions, and academia. The consensus achieved by this widely representative body will facilitate implementation of the practices in state and local governments, since there will be a common understanding among all participants in the budget process of what is to be achieved.

The release of the Council guidelines will not solve all of the problems encountered in budgeting—a complex process that involves politics, compromise, and competing visions of the role of government in serving

the citizenry. What the practices can do is enhance the quality of decision making by encouraging practices that illuminate the key issues and choices facing a community.

The recommended practices have set a new standard of excellence in state and local government budgeting. As with any reform effort, widespread acceptance of changes in budgetary practice will take time, but the benefits promise to be profound and far-reaching.

Acknowledgments

The Council was an unprecedented cooperative undertaking on the part of the associations representing elected officials and professional managers of state and local governments. I would like to thank the seven other co-founding organizations for joining with GFOA in creating the Council, appointing representatives to serve on the Council, and for their ongoing assistance in publicizing and promoting its work. Sincere thanks are due to the individual members of the Council, and to the organizations they represented. The members enthusiastically and tirelessly reviewed and contributed materials and discussed budgeting in numerous meetings over a three-year period. In particular, I would like to acknowledge the efforts of the Council leadership and staff. Chair Paul R. Soglin, former Mayor of Madison, Wisconsin and presently with Lincoln Financial Advisors, kept the Council focused on its mission and schedule, while ensuring full and frank discussion of the issues. Council Vice-Chair Nancy K. Kopp, Delegate, Maryland House of Delegates, also provided able leadership and, with other members, an invaluable state government and legislative perspective. Four individuals served as principal staff to the Council: Joni Leithe, Assistant Director, and Juliet Powdar, Assistant Director, of GFOA; John Gross, Finance Director, City of Aurora, Colorado; and Patricia Tiguer, former GFOA staff member and currently Senior Debt Analyst, City of Portland, Oregon. These staff prepared the initial drafts of the recommended practice statements which were reviewed and edited by the Council. John Gross also prepared the framework paper that is the introduction of this publication. The time, amount of original writing, and perspective John provided to the GFOA staff and Council in this effort was enormous and valuable. I would also like to thank Caterpillar Corporation and Deloitte and Touche, LLP, which contributed financial support for the Council. Deloitte and Touche also donated the staff time of a representative to serve on the Council, as well as additional staff assistance in the design and development of a CD-ROM that presents pages reproduced from budgets and other government documents to illustrate implementation of the 59 recommended budgeting practices. Thanks also are due to the GFOA Committee on Governmental Budgeting and Management, who originally conceived of the need for the Council, and provided support and technical assistance throughout the life of the Council.

Jeffrey L. Esser
Executive Director
Government Finance Officers Association

Introduction

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Governments allocate scarce resources to programs and services through the budget process. As a result, it is one of the most important activities undertaken by governments. As the focal point for key resource decisions, the budget process is a powerful tool. The quality of decisions resulting from the budget process and the level of their acceptance depends on the characteristics of the budget process that is used.

A budget process that is well-integrated with other activities of government, such as the planning and management functions, will provide better financial and program decisions and lead to improved governmental operations. A process that effectively involves all stakeholders—elected officials, governmental administrators, employees and their representatives, citizen groups, and business leaders—and reflects their needs and priorities will serve as a positive force in maintaining good public relations and enhancing citizens' and other stakeholders' overall impression of government.

The National Advisory Council on State and Local Budgeting (NACSLB) was created to provide tools for governments to improve their budgeting processes and to promote their use. In fulfilling that role, the NACSLB has set forth a framework that has provided the context for development of a set of budget practices for state and local governments. The budget practices identified by the NACSLB take into account, and respect, the differences in state and local laws, the impact of the political aspects of government, and the management needs of government. The practices are appropriate for a variety of management and political styles.

As a result of the evolving nature of good budgeting practice, these practices are not intended as mandatory prescriptions for governments. Rather, practices are set forth as recommendations only, and can serve as a blueprint for governments that want to make improvements to their budget processes. Implementation of these practices is expected to be an incremental process that will take place over a number of years.

The framework presents a definition and mission statement for the budget process. It also presents a structure for the overall budget process consisting of principles and budgetary elements. Budgetary elements are essential components of each principle. This structure allows practices to be categorized in a useful manner. The framework and the compendium of good budget practices are intended to serve as tools to assist governments in improving their budget process. Among the benefits are:

- Educating governments and budget participants about the potential of budget systems,
- Helping governments assess the adequacy of their own budgetary systems,
- Providing guidance to governments that want to improve their budget processes, and
- Promoting education, training, and further experimentation and research on techniques that work.

A Definition of the Budget Process

A good budget process is far more than the preparation of a legal document that appropriates funds for a series of line items. Good budgeting is a broadly defined process that has political, managerial, planning, communication, and financial dimensions. The following definition recognizes the broad scope of the budget process and provides a base for improvement of the budget process.

The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.

A good budget process is characterized by several essential features. A good budget process:

- Incorporates a long-term perspective,
- Establishes linkages to broad organizational goals,
- Focuses budget decisions on results and outcomes,
- Involves and promotes effective communication with stakeholders, and
- Provide incentives to government management and employees.

These key characteristics of good budgeting make clear that the budget process is not simply an exercise in balancing revenues and expenditures one year at a time, but is strategic in nature, encompassing a multi-year financial and operating plan that allocates resources on the basis of identified goals. A good budget process moves beyond the traditional concept of line item expenditure control, providing incentives and flexibility to managers that can lead to improved program efficiency and effectiveness.

The Mission of the Budget Process

The mission statement below identifies the central goal of the budget process. It incorporates both political and managerial aspects, as well as a responsibility to report and account for the provision of services and use of resources. Communication and involvement with citizens and other stakeholders is stressed. The broad nature of the mission allows issues to be addressed that have limited the success of budgeting in the past.

The mission of the budget process is to help decision makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process.

Communication and Involvement

A company is not likely to remain in business if it does not stay in touch with its customers. While governments that are not in touch and do not have involved citizens may remain in business, the results are often not pleasant for the citizens or the government. Apathy is a serious illness of

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government. It is in the best interests of government to have involved "stakeholders."

The term "stakeholder" refers to anyone affected by or has a stake in government. This term includes, but is not limited to: citizens, customers, elected officials, management, employees and their representatives (whether unions or other agents), businesses, other governments, and the media.

It is vital that the budget process include *all* stakeholders. The budget process should accomplish the following:

- Involve stakeholders,
- Identify stakeholder issues and concerns,
- Obtain stakeholder support for the overall budgeting process,
- Achieve stakeholder acceptance of decisions related to goals, services, and resource utilization,
- Report to stakeholders on services and resource utilization, and serve generally to enhance the stakeholders' view of government.

The importance of this aspect of the budget process cannot be overstated. Regular and frequent reporting is necessary to provide accountability, educate and inform stakeholders, and improve their confidence in the government. Communication and involvement is an essential component of every aspect of the budget process.

Principles of the Budget Process

The budget process consists of several broad principles that stem from the definition and mission described above. These principles encompass many functions that cut across a governmental organization. They reflect the fact that development of a budget is a political and managerial process that also has financial and technical dimensions.

The functions or activities covered by these principles generally are sequentially ordered, but they can often be performed concurrently to some extent. Moreover, information obtained from one activity or function can aid in achieving an earlier one. The process can be iterative, and is intended to be so. Some functions may also be accomplished by linkage to other processes rather than as an explicit part of a formal budget process. For example, developing broad goals and identifying the services that are needed to accomplish the goals could be part of a separate strategic planning process. As long as there is an appropriate linkage, these functions do not need to be a formal component of the budget process. Governments do need to give adequate attention to these linkages, however, and ensure that those affected are appropriately involved. The budget should be the centerpiece of a thoughtful, ongoing, decision-making process for allocating resources and setting priorities and direction.

The principles of the budget process follow.

The Four Principles of the Budget Process

1. Establish Broad Goals to Guide Government Decision Making

A government should have broad goals that provide overall direction for the government and serve as a basis for decision making.

2. Develop Approaches to Achieve Goals

A government should have specific policies, plans, programs, and management strategies to define how it will achieve its long-term goals.

3. Develop a Budget Consistent with Approaches to Achieve Goals

A financial plan and budget that moves toward achievement of goals, within the constraints of available resources, should be prepared and adopted.

4. Evaluate Performance and Make Adjustments

Program and financial performance should be continually evaluated, and adjustments made, to encourage progress toward achieving goals.

Elements of the Budget Process

Each of the principles of the budget process incorporates components or elements that represent achievable results. These elements help translate the guiding principles into action components. Individual budgetary practices are derived from these elements and are a way to accomplish the elements. The elements of each guiding principle are identified on the following page. The principles and elements provide a structure to categorize budgetary practices. A more detailed explanation of the principles and elements is provided in the appendix.

The Twelve Elements of the Budget Process

Establish Broad Goals to Guide Government Decision Making

- 1. Assess community needs, priorities, challenges and opportunities*
- 2. Identify opportunities and challenges for government services, capital assets, and management*
- 3. Develop and disseminate broad goals*

Develop Approaches to Achieve Goals

- 4. Adopt financial policies*
- 5. Develop programmatic, operating, and capital policies and plans*
- 6. Develop programs and services that are consistent with policies and plans*
- 7. Develop management strategies*

Develop a Budget Consistent with Approaches to Achieve Goals

- 8. Develop a process for preparing and adopting a budget*
- 9. Develop and evaluate financial options*
- 10. Make choices necessary to adopt a budget*

Evaluate Performance and Make Adjustments

- 11. Monitor, measure, and evaluate performance*
- 12. Make adjustments as needed*

Budget Practices Definition of a Budget Practice

A budget practice is a procedure that assists in accomplishing a principle and element of the budget process. It is appropriate for all governments and in all circumstances and situations. Budget practices can be hierarchical—that is, one practice can help accomplish another practice. The Council has avoided a practice hierarchy of more than one level. A budget element typically has multiple practices associated with it.

Budget practices must be clearly related to activities identified in the budget process definition. A practice is not a *budget* practice unless it specifically contributes to the development, description, understanding, implementation and evaluation of a plan for provision of services and capital assets. For example, a policy statement on debt capacity is included in a set of budget practices since debt is a component of the budget and the budget decision making. However, a practice encouraging competitive sales of debt is not a budget practice. More specific methods of accomplishing a budget practice are usually categorized as tools and techniques. There also may be alternative ways to accomplish a practice. Different governments may find one tool or technique works better for them than another. Budget practices do not identify a specific time frame, but tools and techniques may do so. See the section on *Budget Tools and Techniques* for a more detailed description of these items.

Format of a Budget Practice

The budget practice format used by the NACSLB is concise and normally fits on one page. Practice examples are in addition to the one-page description. The format includes the following:

- *Name*—A short phrase naming the practice that can be used to succinctly describe the practice.
- *Principle and Element*—Name of the principle and element with which the practice is associated.
- *Component Practice*—Name of the practice to which this practice is hierarchically related, if any.
- *Practice Description*—A brief description of the practice. It should be no more than two or three sentences.
- *Rationale*—A short one- to three-sentence explanation of the need for the practice and why it is important. It describes the generally applicable benefits.
- *Outputs*—A brief description of communications and outputs. It identifies what is to be produced and who is the audience.
- *Notes*—Additional information with regard to practice implementation, roles, and optional features. Award program requirements and sources may also be provided.
- *Examples*—The NACSLB has compiled more than 100 examples to illustrate implementation of the recommended practices. The examples come from the budgets and other documents of state and local governments, as well as school and other special districts in the United States. These examples can be found in a CD Rom available for purchase from the Government Finance Officers Association, as

well as through hypertext links from the web sites of the following associations:

- <http://www.asbointl.org>
- <http://www.csg.org>
- <http://www.icma.org/othersites>
- <http://www.naco.org>
- <http://www.ncsl.org>
- http://www.usmayors.org/uscm/uscm_projects_services/management_improvement

Comprehensiveness and Categorization of Budget Practices

The budgetary practices are categorized using the principle/element/practice/example hierarchy described in this budgetary framework document. Practices help to accomplish a budgetary element which in turn is a component of a budgetary principle. The NACSLB considers that the recommended budgetary practices are representative of the range of issues raised by each budgetary element. However, the NACSLB also recognizes that there may be additional practices that can be associated with each element and that practices may be added or changed in the future. As a result, this classification is intended to be dynamic and periodically reviewed and updated.

Budget Tools and Techniques

Budget tools and techniques are specific methods of accomplishing a practice. Budget tools and techniques assist in some situations or governments, but may not in all. The NACSLB has not developed tools and techniques. Tools and techniques supporting each practice may be better left to the NACSLB member associations and others to develop.

Issues Affecting Budget Practices

There are numerous issues affecting the successful implementation of budget practices. Failure to address these issues will, at a minimum, be an impediment to improving the budget process, but could have a more severe, adverse impact on the budget process and the quality of the budget results. The NACSLB feels the practices it has developed respect the problems a government may have in implementing a good budget process. The following issues need to be taken into account in the tools and techniques that support budgetary practices:

- Managing the budget process and changes to budget practices.
- Dealing with differences between governments, including size and legislative processes.
- Adjusting for organizational structure and issues.
- Addressing the organizational culture with regard to the budget process
- Election campaign issues.
- Desire to have change or to prevent change.
- Level of resources available for programs.
- Available level of technical system and support.
- Dealing with high (or low) expectations.
- Legal requirements.

- Ensuring citizen processes work.
- The level of stakeholder understanding.
- Accuracy of projections and assumptions.
- Level of disclosure.

Practices Are Recommendations, Not Requirements

The budget practices have been developed to provide guidance to governments that want to make improvements to their budget processes. The NACSLB endorses the practices and considers them a component of good government. These practices should not be regarded as standards or requirements, however. The complex, evolving, and political nature of the budget process make it certain that some governments will find alternative approaches to good budgeting. These approaches may well become additions to or provide the basis for modifying practices identified by the NACSLB.

Some activities identified in the practice statements do not need to be undertaken in every budget cycle. In-depth reviews of existing programs and capital assets, for example, may not be necessary in every period, as long as prior assessments remain relevant. Governments are encouraged to adapt the practices to their particular circumstances.

Success in implementing the principles, elements, and practices should not be measured by how rapidly they are incorporated into the budget process. Successful implementation is likely to take a number of years in order to build the necessary level of understanding among all participants, institute support systems, and make modifications to accommodate the unique nature of each government. The smallest governments and the largest governments (particularly states) may have the most difficulty implementing some aspects of the practices. These governments are more likely to require a longer time period to fully implement the practices and to make the greatest number of modifications to accommodate their individual needs.

Conformance of Recommended Practices with Statute

The recommended practices are intended to supplement existing statutes controlling a government's budget process. The recommended practices should rarely, if ever, be directly in conflict with statute. A conflict can usually be resolved by simply having official materials meet statutory requirements and preparing additional materials conforming to the recommended practices. If there ever is unresolvable conflict, then statutory requirements should take precedence.

Recommended Budget Practices

1.1 Identify Stakeholder Concerns, Needs, and Priorities

Principle: Establish Broad Goals to Guide Government Decision Making

Element: Assess Community Needs, Priorities, Challenges, and Opportunities

Practice: A government should develop mechanisms to identify stakeholder concerns, needs, and priorities.

Rationale: The limited resources of a government should be directed in a manner consistent with the concerns, needs, and priorities of stakeholders; hence, a government must be aware of those concerns, needs, and priorities.

Outputs: This practice provides for a series of mechanisms to promote stakeholder participation in discussing and communicating values and issues that are of concern to them. Among the mechanisms that might be considered are public hearings, surveys, meetings of leading citizens and citizen interest groups, government strategic planning processes, meetings with government employees, and workshops involving government administrative staff and/or the legislative body.

Notes: This practice is integral to practices addressing the development and dissemination of broad goals. Interaction with stakeholders is encouraged as a means to identify their needs, concerns, and priorities and to inform them about issues affecting the government, including available resources. This practice also is related to practices that assess stakeholder satisfaction with programs and services and progress toward achieving goals. (See practice entitled *Monitor, Measure, and Evaluate Stakeholder Satisfaction*.)